



The Triangle Expressway in Wake and Durham counties is North Carolina's first modern toll highway to open to traffic. With all three phases of the \$1.1 billion project now operational, the highway spans 18.8 miles and connects N.C. 147 (the Durham Freeway) at I-40 with the N.C. 55 Bypass near Holly Springs.

2012 marked several significant milestones on the Triangle Expressway, including the initiation of toll collection on the first phase of the project (the Triangle Parkway) in early January. In addition, the second phase of the Expressway from N.C. 55 in Cary to U.S. 64 in Apex opened to traffic on August 1 with toll collection beginning on August 2, and the third phase from U.S. 64 in Apex to the N.C. 55 Bypass near Holly Springs opened to traffic in December with toll collection beginning in January 2013.

Final construction activities are nearing completion on the last phase of the project. Work on the \$446.4 million design-build project is being completed by the Raleigh-Durham Roadbuilders (a joint venture of Archer Western Contractors and Granite Construction Co.).

Fact: 12 percent of the work to complete the Triangle Parkway (Phase I) and 10 percent of the work paid to date on the Western Wake Freeway (Phases II and III) was performed by Disadvantaged Business Enterprises.

Honors and Awards

The N.C. Turnpike Authority was honored with several awards over the past year for its work on the Triangle Expressway, including:

- The American Association of State Highway and Transportation Officials' (AASHTO) prestigious President's Award, which recognizes individuals, programs or teams for improving environmental conditions, utilizing 21st century technology, implementing excellent executive management skills, increasing efficiencies and making effective use of taxpayer dollars.
- The Design-Build Institute of America (DBIA) Transportation Owner of the Year Award in recognition of its efforts to advance design-build project delivery within the transportation sector.
- NCDOT was named 2011 "Owner of the Year" by Engineering News Record Southeast, in part because of the Authority's work on the Triangle Expressway.
- The Triangle Parkway phase of the project received the 2012 Grand Award for Engineering Excellence in Transportation and the 2012 People's Choice Award from the American Council of Engineering Companies of North Carolina. In addition, the Western Wake Freeway phase received the 2013 Grand Award for Engineering Excellence.

Project Timeline

2002

o North Carolina Turnpike Authority (NCTA) Created

2006

December: Federal Highway Admininistration (FHWA) Approval Allowing Tolling of the Project

2007

o December: Design-Build Construction Contract Advertised

2008

- July: Finding of No Significant Impact (FONSI) for the Triangle Parkway (Triangle Expressway Phase I)
- o August: Design-Build Price Proposals Opened
- o October: Project receives investment grade credit rating

2009

- July: Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement Execution
- o July: Toll Revenue and State Appropriation Bond Sales Completed
- August: Design-Build Construction Contracts Awarded
- August: Groundbreaking Ceremony
- o December: Toll Collection System Contracts Awarded

2010

- o March: Intelligent Transportation System Contract Awarded
- May: Electronic Toll Collection System (Transponders) Contract Awarded

2011

- o May: Landscaping Contract Awarded
- o October: NC Quick Pass® Customer Service Center opening
- o December: Phase I Open to Traffic

2012

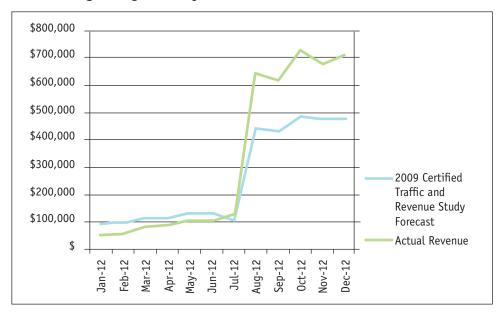
- o January: Phase I Toll Collection Begins
- o August: Phase II Open to Traffic and Toll Collection Begins
- December: Phase III Open to Traffic

2013

January: Phase III Toll Collection Begins

Financial Overview

Triangle Expressway—Forecasted and Actual Revenue



In 2009, the Turnpike Authority completed the Triangle Expressway Investment Grade Traffic & Revenue Study. Through 2012, revenue collection on the Expressway has exceeded the projected total by 29 percent. As shown in the table below, a spike in monthly revenue can be seen in August 2012, corresponding with the opening of Phase II of the Expressway.

Monthly Revenue Collection (2012)

Month	Certified Traffic & Revenue Forecast	Actual Collected Revenue
January 2012	\$94,057	\$54,188
February 2012	\$98,934	\$56,320
March 2012	\$113,566	\$83,021
April 2012	\$114,959	\$89,985
May 2012	\$128,894	\$107,026
June 2012	\$129,590	\$105,246
July 2012	\$108,256	\$126,661
August 2012	\$444,793	\$643,312
September 2012	\$430,672	\$618,360
October 2012	\$484,801	\$726,956
November 2012	\$475,975	\$677,663
December 2012	\$478,917	\$709,721

Traffic

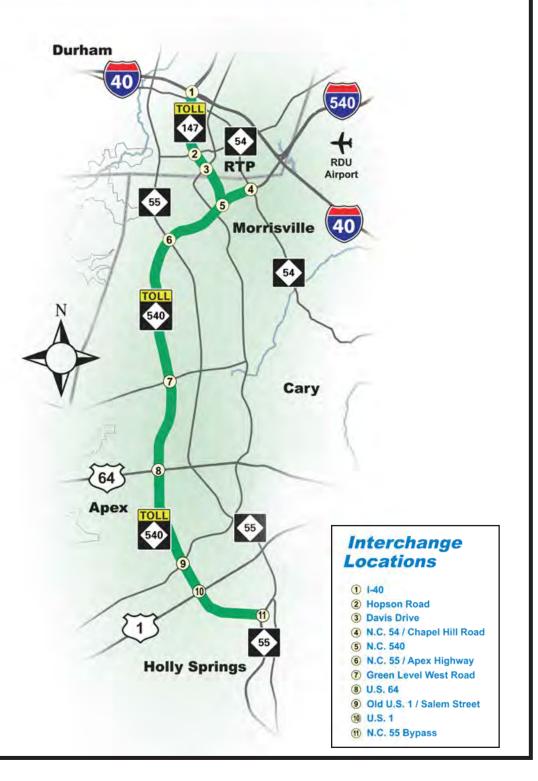
Since its opening in December 2011, traffic has increased steadily as motorists in the Research Triangle Park Area have discovered driving time savings by using the Triangle Expressway. As part of its Intelligent Transportation System, the Turnpike Authority maintains a system of vehicle detectors that continuously measures Expressway volume and speeds. The table below illustrates a sampling of mainline section two-way average weekday volumes.

Average Weekday Traffic (2012)

Month	Toll NC-147, between I-40 and Hopson Road	Toll NC-540, between NC- 147 and NC-55 (Cary)	Toll NC-540, between Green Level West Road and US-64
January 2012	3,900	N/A	N/A
February 2012	4,350	N/A	N/A
March 2012	4,550	N/A	N/A
April 2012	4,700	N/A	N/A
May 2012	4,800	N/A	N/A
June 2012	5,000	N/A	N/A
July 2012	4,700	N/A	N/A
August 2012	6,050	19,350	6,050
September 2012	6,050	19,550	6,300
October 2012	6,350	19,350	6,850
November 2012	6,450	19,450	7,350
December 2012	6,600	19,850	7,700

Note: Segments of the Triangle Expressway were not open in months marked with an "N/A".

Triangle Expressway All Phases Now Open



Toll Collection

At midnight on January 3, 2012, toll collection commenced on Phase I of the Triangle Expressway. This phase of the Expressway opened free to traffic on December 8, 2011 and extended N.C. 147 by 3.4 miles from Interstate 40 to N.C. 540. Six ramp toll zone facilities are located on Phase I. The on-schedule beginning of tolling represented a culmination of more than three years of procurement, development, testing and implementation of the state's first all-electronic toll collection system, NC *Quick Pass*®.

The toll collection system manages the NC *Quick Pass*® pre-paid transponder based program and the Bill by Mail post-paid billing program. NC *Quick Pass*® allows customers to manage and replenish their toll accounts online and provides a 35 percent discount compared to the Bill by Mail toll rates.

Phase II of the Triangle Expressway opened to traffic with toll collection on August 2, 2012. This phase extended N.C. 540 by 6.7 miles from N.C. 55 to U.S. 64 and initiated tolling on the 2.8 miles of N.C. 540 from N.C. 54 to N.C. 55. Two mainline and two ramp toll zone facilities were added to the toll collection system on Phase II.

Toll collection on Phase III began on Jan. 2, 2013. This phase extends N.C. 540 by 5.7 miles from U.S. 64 to N.C. 55 near Holly Springs and completes the Triangle Expressway project. Two mainline and two ramp toll zone facilities are located on Phase III of the Expressway.

In addition, in 2012, final design and testing activities took place to allow the Turnpike Authority's NC *Quick Pass** program to become interoperable with the E-Z Pass* transponder program. NC *Quick Pass** became interoperable with E-Z Pass* on January 3, 2013.

Total Monthly Toll Transactions (2012)

Month	Total Toll Transactions
January 2012	115,653
February 2012	124,042
March 2012	144,326
April 2012	141,410
May 2012	155,752
June 2012	152,499
July 2012	152,191
August 2012	936,835
September 2012	881,182
October 2012	1,007,131
November 2012	931,514
December 2012	965,166

Illustrates the total number of toll transactions on the Triangle Expressway system, by month, for 2012.

Both the NC *Quick Pass*[®] and Bill by Mail account programs are administered by the NC *Quick Pass*[®] Customer Service Center, located in Morrisville. Transponder sales are also processed and mailed from the Service Center.

Since the opening of the Service Center in October 2011, transponder sales have exceeded expectations with more than 52,000 transponders sold as of December 31, 2012.

Total Monthly Transponder Sales (2012)

Month	Total Transponders Sold
January 2012	3,416
February 2012	2 1,692
March 2012	1,527
April 2012	1,238
May 2012	1,240
June 2012	1,777
July 2012	4,451
August 2012	9,202
September 201	2 4,747
October 2012	4,591
November 201	2 3,404
December 201	2 5,164
Total through 20	52,770

Illustrates the number of transponders sold in 2012.



Traffic Management and Safety Initiatives

The Turnpike Authority manages traffic and activities along the Triangle Expressway at the recently opened, state-of-the-art Traffic Management Center located in the National Guard's Joint Force Headquarters in Raleigh.

Highly trained operators monitor the entire length of the Triangle Expressway via Closed Circuit TV, Microwave Speed Detectors and Interoperable 800MHz radio dispatch from local 911 and statewide Highway Patrol communications, as well as through the Turnpike Authority's security cameras and Roadway Weather Information System.

More than 200 cameras are located along the Expressway to monitor traffic operations, ensure security of the toll gantries and collect license plate images used for Bill By Mail toll collection. Operators monitor the roadside technology and toll facilities and are able to quickly dispatch maintenance personnel to address any issues with the equipment.

Roadway updates are provided to motorists via 10 full-color Dynamic Message Boards (the first full-color boards in the state) as well as through NCDOT's 511 system and Traveler Information Management System (TIMS) website.

The Triangle Expressway also has contracted Highway Patrol officers and a dedicated Incident Management Assistance Patrol (IMAP) that can be dispatched to respond to any incidents that occur, ranging from disabled motorists and debris to major traffic wrecks that could be detrimental to both motorist safety and toll collection.

In 2012:

- The Traffic Management Center (TMC) **addressed 1,124 incidents**, ranging from debris and wrecks to construction and maintenance activities.
- TMC Operators **alerted motorists 3,375 times** with messages on the Expressway's full-color Dynamic Message Signs (DMS).
- As each phase of the Triangle Expressway opened to traffic, additional DMS became operational. Four DMS were in operation from January 1 to August 1, six were in operation from August 1 to December 20, and all 10 were in operation from December 20 to December 31.
- The Highway Patrol investigated 54 crashes, most of which were along routes adjacent to the Triangle Expressway. No fatalities occurred along the roadway.
- IMAP **responded to a total of 876 incidents**, including 32 abandoned vehicles, 383 disabled vehicles, 244 debris calls, 55 wrecks and 162 other miscellaneous requests for service, such as emergency traffic control.
- IMAP units responded to incidents along the roadway in an average of 7 minutes and cleared the incident in an average of less than 7 minutes.

Maintenance Activities

The Turnpike Authority executes a customer-focused roadway maintenance program that keeps the Triangle Expressway in optimal operating condition and maintains the safety and appearance of the highway. The program includes:

- o Routine litter pickup, pavement sweeping and mowing.
- Daily patrolling of the route to identify maintenance issues to be flagged for immediate repair.
- A quarterly Maintenance Rating Program designed to evaluate roadway maintenance performance and develop an effective schedule for addressing long-term maintenance needs.
- A roadside technology maintenance program that helps ensure all-electronic toll collection equipment and traffic management equipment operates uninterrupted 24 hours a day, 7 days a week. Toll collection facilities are monitored remotely and a team of technicians is available around the clock to respond to any maintenance needs.

Fact:

In 2012:

- The Triangle Expressway achieved a Maintenance Rating Program score of
 96.7 on a 100-point scale, surpassing its identified target score of
- The Triangle Expressway toll collection system was available 99.96 percent of the time.
- Traffic cameras, speed detectors, Dynamic Message Boards and other Intelligent Transportation System (ITS) devices were operational 99 percent of the time.

Educational and Marketing Efforts

Significant efforts were conducted to educate motorists about the Triangle Expressway, how all electronic toll collection works and the benefits the highway has to offer, as well as to market the cost-savings and convenience available through the NC *Quick Pass®* pre-paid transponder based program.

Educational and marketing events during 2012 included:

- Seven chamber of commerce visits (two in Apex, one in Cary, Durham, Holly Springs, Morrisville, Raleigh)
- o Eight Research Triangle Park Employer Visits
 - o Earth Day at Cisco
 - Cisco Vendor Fair
 - o Duke Realty (3 sessions)
 - o Environmental Protection Agency
 - NetApp
 - o Credit-Suisse
- Eighteen Community Events
 - o Apex Fest
 - o Apex Rotary Club
 - Durham Bulls Displays (16 games)

Marketing efforts have also included:

- Print advertising in local newspapers including the Cary News, Durham News, Garner-Cleveland Record, News & Observer, Southwest Wake News and Triangle Business Journal, and in magazines including Cary Magazine, AAA Go and Our State.
- Radio advertising on networks including National Public Radio, WQOK-FM K97.5, WKSL-FM KISS 93.9, WPTF News Radio AM 680, WZTK Talk Radio FM 850, WFXC-FM Foxy 107.1, and WRVA-FM The River 100.7.
- **Television advertisements** on broadcast and cable TV networks including News 14 Carolina, TNT, HGTV, ESPN, TBS, USA Network and The Weather Channel.
- o **Out-of-home advertising** materials including gas pump toppers, fillboards, window clings and tear pads.
- Online/digital advertising through Google, abc11.com, Pandora, Traffic.com, Mobile Theory, Specific Media and WRAL.com.

Trot

This past year, the Turnpike Authority held two separate 5K and Family Fun Day Events to celebrate the opening of the second and third phases of the Triangle Expressway. These events built on the success of the initial Triangle Expressway Trot, held in November 2011 in conjunction with the completion of the first phase of the Expressway. All three events benefited Mothers Against Drunk Driving (MADD), raising a total of more than \$50,000 for the organization.

The Triangle Expressway Trot II was held in July and the Triangle Expressway Trot III was held in December. In addition to a 5K race on the unopened highway, the Triangle Trot III also included a family fun bike ride that raised \$375 for NCDOT's Bicycle and Pedestrian Helmet Initiative, which provides free helmets to underprivileged children.

Fact: Local marketing research indicates that 17 percent of those who are aware of the Triangle Expressway learned about it through the Triangle Expressway Trot events.

The Triangle Expressway Trot III also included a Toys for Tots fundraising event, in which contractor Raleigh-Durham Roadbuilders partnered with the community to fill a front-end loader with new toys to be distributed to local children in need.



Cyclists participate in the Triangle Trot III Family Fun Bike Ride.

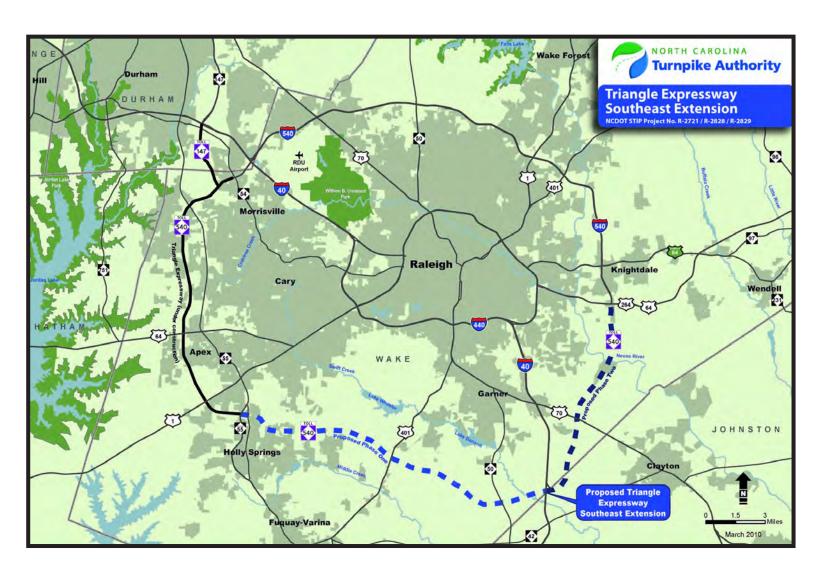
TRIANGLE EXPRESSWAY SOUTHEAST EXTENSION

Local transportation leaders and elected officials are working together to develop a path forward for the Southeast Extension, which would extend the Triangle Expressway and complete the 540 Raleigh Outer Loop.

During 2012, the Authority did not work on the environmental document in order to comply with state law. Community leaders and elected officials in the Raleigh Transportation Alliance and the Capital Area Metropolitan Planning Organization led an effort to find a solution that would meet the requirements of both state and federal law. Nationally renowned experts were hired to work closely with local leaders to investigate all possible options. Authority staff have provided assistance when requested.

On December 7, 2012, NCDOT/the Authority received a letter from the Federal Highway Administration and the Army Corp of Engineers that defined the parameters that must be met to satisfy the National Environmental Policy Act requirements. The letter rescinded the Federal Highway Administration's approval to use federal funds on the project until the conflict between state and federal law is resolved.

The Authority will resume work on this project if and when local leaders develop a resolution to this conflict.



MONROE CONNECTOR/BYPASS



The proposed Monroe Connector/Bypass would span 19.7 miles from U.S. 74 at I-485 in eastern Mecklenburg County to U.S. 74 between the towns of Wingate and Marshville in Union County. The Turnpike Authority received a Record of Decision for the project from the Federal Highway Administration (FHWA) in August 2010, signifying final federal approval of the route.

However, in November 2010, the Southern Environmental Law Center (SELC), on behalf of Clean Air Carolina, the N.C. Wildlife Federation and Yadkin River Keeper, filed a lawsuit in Federal District Court disputing the project's National Environmental Policy Act documentation. NCDOT and FHWA prevailed in a Federal District Court decision issued on October 24, 2011. The SELC then filed an appeal to the 4th U.S. Circuit Court of Appeals, and a three-judge panel of the court overturned the lower court's decision on May 3, 2012. On June 15, 2012, the NCDOT filed a petition for rehearing seeking a review by the full Circuit Court of the legal analysis arising out of technical data/facts that the state believes the higher court panel misunderstood. This petition for rehearing was denied on June 29, 2012, and the Record of Decision was subsequently rescinded by FHWA on July 3, 2012.

Work on final designs was nearly complete and 19 properties had been purchased when the Circuit Court decision was announced, causing NCDOT to temporarily suspend work on design and right-of-way acquisition. The Authority has been proactive in addressing community concerns about the project's status, holding public informational meetings in June 2012 and presenting at numerous local meetings to explain issues and timeline associated with the lawsuit.

The Authority is working in close coordination with other units of NCDOT and FHWA to prepare additional documentation to respond to the Court's concerns. Documentation is expected to be complete in early 2013, with a new Record of Decision anticipated in the first quarter of 2013. At that point, work on final designs and right-of-way acquisition could resume.

Schedule Snapshot

Awarded Design-Build Contract November 15, 2011

Re-initiate work on Final Designs 2nd Quarter 2013

Right-of-Way Acquisition 2nd Quarter 2013 to 2014



GARDEN PARKWAY

The Garden Parkway, also known as the Gaston East-West Connector, is a proposed 21.9-mile toll road that would connect I-85 west of Gastonia in Gaston County to I-485 near the Charlotte-Douglas International Airport in Mecklenburg County. The initial construction would include a four-lane roadway with new crossings over the Catawba and South Fork rivers to U.S. 321 and a two-lane roadway within a four-lane right of way between U.S. 321 and I-85.

The project aims to improve east-west transportation mobility in the area around the City of Gastonia as well as between Gastonia and the Charlotte metropolitan area, while also establishing direct access between southeast Gaston County and western Mecklenburg County. Travel time savings may exceed 25 minutes for some trips.

In December 2010, Alternative 9 was identified as the preferred alternative for the Garden Parkway in the project's Final Environmental Impact Statement, and was approved in the Federal Highway's Record of Decision issued on February 29, 2012. On August 28, 2012, the Southern Environmental Law Center (SELC), on behalf of Clean Air Carolina and the Catawba Riverkeeper Foundation, filed a suit in Federal District Court in Charlotte challenging the project's environmental documentation. This litigation is still pending.

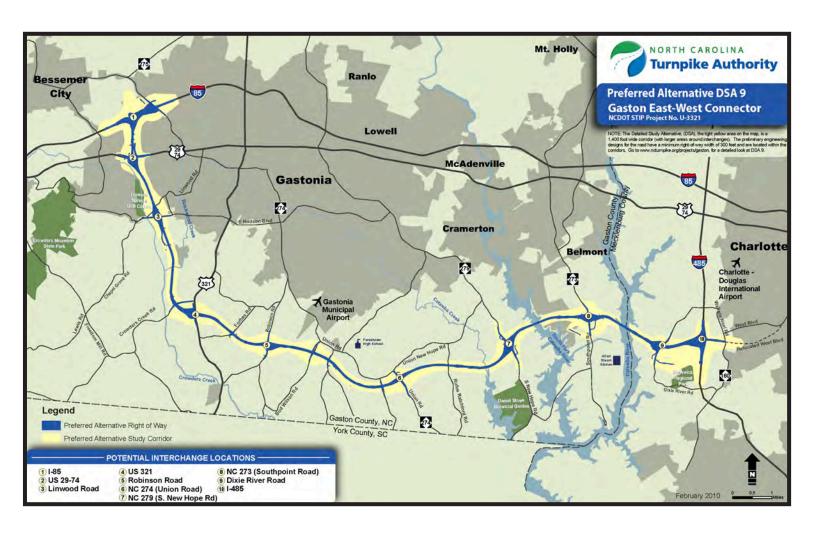
The design-build procurement process for the project is underway. The project has been separated into two procurement structures, East and West, to create more opportunities for local contractors. The East section will include a 9.5-mile four-lane, divided highway that will run from I-485 in Mecklenburg County to just west of Wilson Farm Road. The contract for this section will also encompass toll operations for the entire project. The West section will include a new four-lane road between Wilson Farm Road and U.S. 321 and a new two-lane road between U.S. 321 and I-85, totaling 11.5 miles. Four teams were short-listed for the East section, and three teams were selected for the West section. Price and Technical Proposals will be submitted in 2013.

The project is estimated to cost about \$900 million. Final costs will be determined during design. The Authority expects to issue bonds for the Parkway in late 2013 and begin construction in 2014.

Schedule Snapshot

Record of Decision February 29, 2012

Advertise Design-Build East and West 1st Quarter 2012



MID-CURRITUCK BRIDGE



In January 2012, the Federal Highway Administration (FHWA) and the Turnpike Authority approved the Final Environmental Impact Statement (FEIS) for the Mid-Currituck Bridge, a sevenmile, two-lane toll project that spans Currituck Sound and connects U.S. 158 near Aydlett with N.C. 12 on the Outer Banks

south of Corolla. The Preferred Alternative, identified in the project's FEIS as MCB4/C1, places the bridge in the northern (C1) corridor with a second bridge across Maple Swamp (Option A). Aydlett Road would remain open to traffic and turning movements would not be restricted at Waterlily Road.

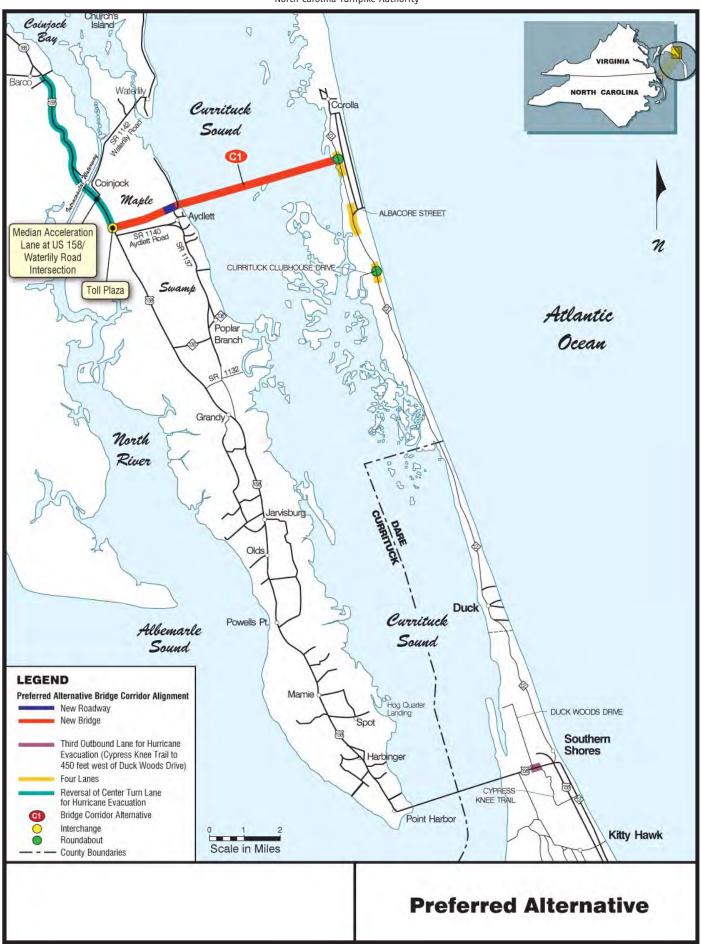
The Preferred Alternative was selected based on numerous factors including: cost and design considerations; travel benefits; minimization of community, natural resource and other impacts; agency comments; and public input. Since the close of the project's formal Draft Environmental Impact Statement comment period in June 2010, the Authority has been working with environmental resource and regulatory agencies to resolve key concerns. Based on this feedback, the Preferred Alternative was revised to further minimize impacts to natural resources and the community.

The project is expected to substantially reduce travel time and congestion as well as provide an alternative hurricane evacuation route for the northern Outer Banks. Preliminary costs are estimated at about \$550 million, and the Authority anticipates financing the project through a combination of state appropriation bonds, toll revenue bonds, private equity and a possible federal (TIFIA) loan.

The Authority is currently awaiting FHWA's Record of Decision for the project, signaling the end of the environmental study process. A limited "Notice to Proceed" to begin final design is expected in 2013. The project may be North Carolina's first major highway funded through a public-private partnership in accordance with a pre-development agreement executed with private developer Currituck Development Group LLC. The Authority is currently in negotiations with Currituck Development Group and expects to finalize the project's commercial terms in 2013.

Schedule Snapshot

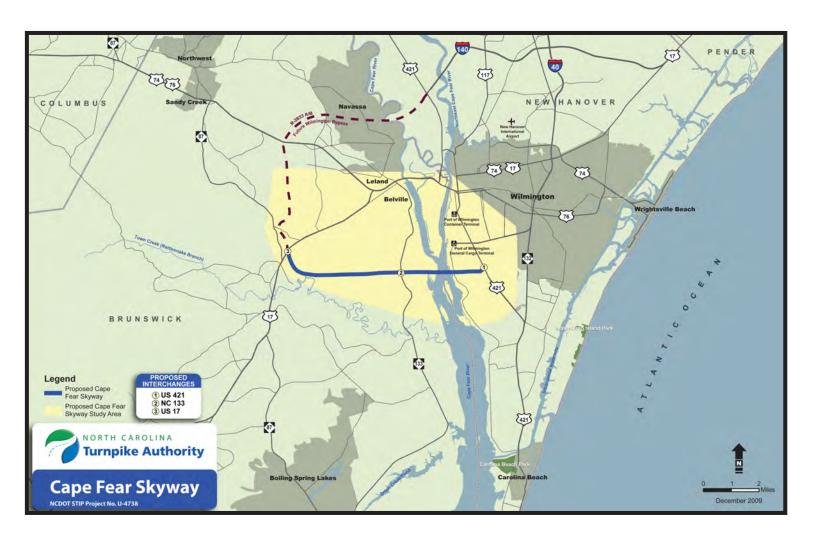
Record of Decision Awaiting FHWA Approval



CAPE FEAR SKYWAY

The Cape Fear Skyway in Brunswick and New Hanover counties is an approximately 9.5-mile proposed toll road from the U.S. 17 Bypass in Brunswick County to U.S. 421 near Wilmington that would include a new high-rise bridge over the Cape Fear River. The central purpose of the project is to improve traffic flow and freight movements by connecting major routes in Brunswick and New Hanover counties, along with providing better access to the Port of Wilmington. In addition, the project would help reduce hurricane evacuation clearance time for residents and visitors and aid in emergency evacuation from Progress Energy's Brunswick Nuclear Plant in Southport. Preliminary cost estimates for the project are between \$950 million and \$1.1 billion.

At the request of the Wilmington Urban Area Metropolitan Planning Organization, NCDOT participated in a workshop held in Wilmington on Nov. 26 that focused on regional transportation needs and opportunities for enhancing the crossing of the Cape Fear River. Discussions included the proposed Cape Fear Skyway, as well as options to improve the existing Cape Fear Memorial Bridge.



ALLIANCE FOR TOLL INTEROPERABILITY

The Authority plays a leading role on the Board of Directors of the Alliance for Toll Interoperability (ATI), a membership organization comprised of more than 45 toll operators across North America working together to establish avenues for regional and national toll interoperability. ATI has been a keystone in bringing authorities together to solve major hurdles for interoperability and violation enforcement.

ATI continues to pursue DMV plate exchange including aiding and promoting the development of state legislation that allows for DMV sharing of information. With public and private agencies having their own operating agreements, future technology needs to be cost effective, accurate, and flexible to meet specific legal requirements of its clients.

ATI has continued work on the interoperability HUB that will provide a cost effective alternative for agencies to use their existing equipment and resources and yet be interoperable with other participating agencies.

ATI held its first Annual Membership and Roundtable Forum in Atlanta on July 25, 2012, in conjunction with the International Bridge, Tunnel and Turnpike Association's (IBTTA) Summit on All-Electronic Tolling. ATI was honored to have then NCDOT Secretary Gene Conti give a welcome and opening remarks. More than 150 people attended, representing agencies, vendors, consultants, and several of ATI's partner associations and organizations including the American Association of Motor Vehicle Administrators (AAMVA), ITS America, the I-95 Corridor Coalition, and IBTTA. The forum provided a venue for networking in addition to sparking conversations about goals and current and future challenges within the industry.

BUDGET OVERVIEW*

Current Projects	FY07 (k)	FY08 (k)	FY09 (k)	FY10 (k)	FY11 (k)	FY12 (k)	APW/Budget FY13 (k)	Actual/Budget by Project
Triangle Expressway	3,526.9	7,541.1	6,538.7	867.7	(221.2)	(1,614.6)	_	16,638.6
Monroe Connector/Bypass	424.1	3,314.6	4,057.7	5,490.1	2,398.3	40,307.7		55,992.5
Garden Parkway	1,111.5	3,159.6	2,096.3	6,233.5	2,733.5	1,383.4		16,717.8
Mid-Currituck Bridge	1,152.3	2,300.7	4,737.4	7,172.9	1,931.0	3,092.9	8,051.4	28,438.6
Southern Wake Expressway	_	_	188.0	5,081.0	1,885.5	759.1	868.9	8,782.5
Cape Fear Skyway	575.5	1,213.8	1,267.6	1,234.2	839.3	60.9	_	5,191.3
Other Projects	26.4	0.2	119.6	_	(0.2)	_	735.0	881.0
Total	6,816.7	17,530.0	19,005.3	26,079.4	9,566.2	43,989.4	9,655.3	132,642.3
Administrative Actual/Budget	3,934.6	3,623.6	3,802.8	3,314.0	2,735.2	1,744.2	2,023.9	21,178.3
Total Budgeted Annual Plan of Work	10,751.3	21,153.6	22,808.1	29,393.4	12,301.4	45,733.6	11,679.2	153,820.6

^{*}Note: A complete copy of the Authority's Financial Statements and Independent Auditors' Report is attached as an appendix at the end of this annual report.





North Carolina Department of Transportation

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NORTH CAROLINA TURNPIKE AUTHORITY

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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June 30, 2012 and 2011

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Independent Auditors' Report

Board of Directors North Carolina Turnpike Authority Raleigh, North Carolina

We have audited the accompanying statements of net assets of the North Carolina Turnpike Authority (NCTA), a major enterprise fund of the State of North Carolina as of and for the years ended June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows, which collectively comprise the NCTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the NCTA's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the NCTA and do not purport to, and do not, present fairly the financial position of the State of North Carolina or the North Carolina Department of Transportation, as of and for the years ended June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCTA as of June 30, 2012 and 2011, and the respective changes in financial position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2012 on our consideration of the NCTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as shown in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Raleigh, North Carolina

Jus. John H & tenler

October 1, 2012

June 30, 2012 and 2011

The management's discussion and analysis (MD&A) provides an overview of the North Carolina Turnpike Authority's (NCTA) activities during the fiscal years ended June 30, 2012, 2011 and 2010. The discussion and analysis also includes condensed financial information comparing the current year to the prior years.

Overview of the Financial Statements

The North Carolina Turnpike Authority is a public agency of the State of North Carolina located within the Department of Transportation (NCDOT) and is a major enterprise fund of the State. As such, the NCTA is included in the State of North Carolina *Comprehensive Annual Financial Report*. The accompanying statements were prepared in accordance with accounting principles generally accepted in the United States of America to represent the NCTA's financial position separate from the State of North Carolina.

Included in this report are the Statements of Net Assets as of June 30, 2012 and 2011, the Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2012 and 2011, and the Statements of Cash Flows for the years ended June 30, 2012 and 2011. These statements use the accrual basis of accounting, which is similar to the accounting by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statements of Net Assets present assets less liabilities which equals net assets, thus presenting the NCTA's financial position at the end of the fiscal year, while the Statements of Activities presents information showing how the NCTA's net assets changed during the fiscal year.

Financial Highlights and Analysis

Although the North Carolina Turnpike Authority was created in October 2002, financial activity started late in fiscal year 2004. Budgeted Administrative Activities for fiscal year 2012 were limited to salaries, personnel, Board members per-diem, travel and other general operating expenditures while project related cost was funded by state appropriated, federal or project specific financings.

Major accomplishments for the North Carolina Turnpike Authority (NCTA) for fiscal year 2012 included the following:

- The Triangle Expressway, North Carolina's first modern toll road, is under construction and being completed in three phases. The Triangle Parkway (Phase I) is 3.4 miles of new construction between the existing interchange of NC 147 and I-40 and existing NC 540. Phase I was completed ahead of schedule and opened to traffic on December 8, 2011. The Western Wake Freeway (Phases II and III) includes 12.6 miles of new construction between NC 55 and the NC 55 Bypass near the Town of Holly Springs. Phase II and Phase III are on schedule and expected to open in August 2012 and December of 2012, respectively. The Triangle Expressway system includes the construction of an integrated, electronic tolling system. As of June 2012, the project is approximately 80% complete, with a 5.9% estimated savings from the initial financial plan.
- The Monroe Bypass is a new location, controlled-access toll road from US 74 near I-485 in Mecklenburg County to US 74 between the towns of Wingate and Marshville in Union County, a distance of approximately 20 miles. The highway design-build price proposals were opened in October 2010, and the \$367,000,000 contract was awarded in November 2011. In October 2010, the NCTA issued \$233,920,000 in State Annual Appropriation Revenue Bonds. In late 2011, in addition to \$77,000,000 in STIP funding, and to complete funding of the project, \$10,000,000 in Senior Lien Turnpike Revenue Bonds, \$214,505,000 in State Annual Appropriation Revenue Bonds, and \$145,535,000 in GARVEE bonds with State match were sold. However, construction has been delayed due to litigation challenging the project's NEPA documentation. Court resolution is expected in Fiscal Year 2013.

June 30, 2012 and 2011

- The Mid-Currituck Bridge project is a new seven-mile, two-lane, toll project that would cross Currituck Sound and connect the mainland at U.S. 158 near Aydlett with NC 12 on the Outer Banks south of Corolla. The project is planned as the State's first long-term concession Public-Private Partnership. The Currituck Development Group (CDG) was awarded a Pre-Development Agreement in 2008 for the development of design options, traffic and revenue studies, value engineering, construction methodology, and preliminary financial feasibility studies. The CDG is currently negotiating a concession contract with the Authority to develop, design, build, finance, operate and maintain the Project.
- In 2012, the NCTA completed the environmental documentation and continued the highway design-build procurement process for the Garden Parkway, a new 21-mile, controlled-access toll highway that would begin at I-485 near the Charlotte-Douglas International Airport at N.C. 160 in Mecklenburg County and continue west across the Catawba River into Gaston County, ending at I-85 west of Gastonia.
- The North Carolina General Assembly amended the budget to include the following appropriations for NCTA projects:
 - FY 2012 and FY 2013: \$49 million annually for the Triangle Expressway (\$25 million) and Monroe Bypass (\$24 million) projects
 - FY 2014 and beyond: \$112 million annually for the Triangle Expressway (\$25 million), Monroe Bypass (\$24 million), Mid-Currituck Bridge (\$28 million), and Garden Parkway (\$35 million) projects.
- Funding for administrative expenses is reviewed and advanced as needed from the Highway Trust Fund Administration line item to be repaid by the NCTA from revenue collections. Interest will begin to accrue on the advance one year after the NCTA begins collecting tolls on a completed Turnpike project at a rate equal to the State Treasurer's average annual yield on its investment of Highway Trust Funds pursuant to G.S. 147-6.1. Turnpike project funding may come from a combination of debt and North Carolina Department of Transportation, Federal Highway Administration, and public private partnership participation as authorized in G.S. 136-89.189 and G.S. 136-89.191.

Net Assets and Revenues, Expenses, and Changes in Net Assets

For fiscal year 2012, the NCTA ended with positive net assets. This is the result of reclassifying project expenditures to capital assets, non-depreciable that will eventually be depreciated when projects are completed.

Condensed Statements of Net Assets

	2012		2011		2010	
Current Assets Restricted Assets and Deferred Charges Capital Assets	\$	55,849,363 902,787,475 1,013,042,633	\$	48,281,824 706,505,873 689,382,678	\$	5,323,581 545,547,326 299,092,924
Total Assets		1,971,679,471		1,444,170,375		849,963,831
Current Liabilities Noncurrent Liabilities	Manager for the state of the st	131,866,984 1,569,455,286		98,245,834 1,155,584,063		43,770,357 712,139,911
Total Liabilities		1,701,322,270		1,253,829,897		755,910,268
Invested in Capital Assets Unrestricted	Warmer Andrews	346,628,861 (76,271,660)		249,443,795 (59,103,317)		128,824,029 (34,770,466)
Net Assets	\$	270,357,201	\$	190,340,478	_\$_	94,053,563

June 30, 2012 and 2011

Current Assets

The increase is due to an increase in in the securities lending collateral.

Capital Assets

Capital Assets, Non-depreciable – The increase is due to an increase in engineering and construction contract expenses related to toll road projects, primarily the Triangle Expressway, which will be completed in December of 2012 and the Monroe Connector. Since these projects are not yet complete, they are recorded in the Construction in Progress account.

Capital Assets, Depreciable – The increase is due to the opening of the first phase of the Triangle Expressway and the resulting re-classification of costs from the Construction in Progress account to a depreciable asset account.

Current Liabilities

Current liabilities include accounts payable, current portion of interest payable, obligations under securities lending, current portion of revenue bonds payable and other current liabilities. The increase is due to an increase in the securities lending collateral due to a higher balance with the North Carolina State Treasurer's Investment Fund as well as a portion of the revenue bonds payable becoming current and due within one year.

Noncurrent Liabilities

Noncurrent liabilities include revenue bonds payable, notes payable, funds advanced to the Turnpike Authority from the Highway Trust Fund to cover the administrative expenditures of the NCTA and it also includes the noncurrent portion of accrued vacation and interest payable. The increase is attributable to the issuance of more revenue, appropriation and GARVEE bonds in the current year and an increase in the TIFIA loan.

Net Assets

Net Assets represent the residual interest in the NCTA's assets after all liabilities are deducted. For reporting purposes they are divided into three categories: invested in capital assets, net of related debt, restricted for capital projects and unrestricted net assets.

June 30, 2012 and 2011

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011	2010	
Operating Revenues:				
Charges for Services	\$ 495,68		\$ -	
Other Operating Revenues	169,17			
Total Operating Revenues	664,86	51 21		
Operating Expenses:				
Personnel Services	1,318,56	1,154,715	1,967,621	
Supplies and Materials	244,58	32 17,404	22,549	
Contracted Personnel Services	2,796,59	99 601,523	709,257	
Travel	67,4	13 59,192	50,547	
Advertising		- 22,875	58,917	
Utilities	77,38	30 41,691	49,081	
Dues and Subscription Fees	25,49	95 16,409	17,639	
Other Services	2,038,71	1,663,155	241,644	
Cost of Goods Sold	169,17	- 70	-	
Capital Outlay	3,481,88	30 20,246	216,920	
Rental Expense	107,03	183,243	206,298	
Depreciation	1,869,95	52 15,134	16,095	
Total Operating Expenses	12,196,79	3,795,587	3,556,568	
Operating Loss	(11,531,93	31) (3,795,566)	(3,556,568)	
Nonoperating other revenue/expenses				
and capital grants	24,381,72	28 30,929,723	12,469,729	
Transfers In	69,912,78	69,152,758	34,390,831	
Transfers Out	(2,745,86	63) -		
Change in Net Assets	80,016,72	96,286,915	43,303,992	
Net Assets Beginning, July 1	190,340,47	78 94,053,563	50,749,571	
Net Assets Ending, June 30	\$ 270,357,20	190,340,478	\$ 94,053,563	

Operating Revenues

Operating revenues are revenues derived from the business operations of the NCTA. These include toll revenues, fees and sales revenue from the sale of transponders. 2012 was the first year these revenues have been collected due to the opening of the first phase of the Triangle Expressway.

June 30, 2012 and 2011

Operating Expenses

Operating expenses are expenses used to acquire or produce goods and services to carry out the mission of the NCTA. The increase in personnel services is attributed to a shift from direct toll road project labor which is capitalized during the construction period, to operational labor. The increase in contracted personnel services is attributed to the expensing of certain costs related to the completed section of the Triangle Expressway instead of capitalizing them during construction. The majority of the other services expenses are the costs associated with the standard overhead allocation from the North Carolina Department of Transportation.

Non-operating and Other Revenue/Expenses

Non-operating revenues/expenses are revenues received or expenses incurred for which goods and services are not provided or received. They include capital grants, transfers in and out, investment income and debt service expense. Capital grants are the funds received from the Federal Highway Administration and the North Carolina Department of Transportation for their participation in the initial construction of toll highways and in preliminary studies to determine the feasibility of a toll facility. This amount decreased due to the expensing of debt service related to the completed section of the Triangle Expressway.

Economic Outlook

Utilizing innovative financing and engineering initiatives, advanced toll collection technologies, and expedited environmental reviews, the NCTA is moving rapidly to accomplish its mission to advance construction of certain strategic highways as efficiently as possible. With the completion of each project, sound fiscal practices are being reviewed and implemented to allow for efficient and effective operation of the completed project to safeguard the assets and patrons of the NCTA.

Requests for Information

Any request for information about this report should be sent to the Chief Financial Officer at the North Carolina Turnpike Authority, 1 South Wilmington Street, Raleigh, NC 27601.

NORTH CAROLINA TURNPIKE AUTHORITY STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,569,019	\$ -
Securities Lending Collateral	51,709,874	41,711,692
Accounts Receivable	84,055	1,865
Inventory	1,420,171	-
Intergovernmental Receivable	66,244	6,568,267
Total Current Assets	55,849,363	48,281,824
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	333,282	-
Investments	873,307,704	679,207,154
Total Restricted Assets	873,640,986	679,207,154
Deferred Charges	29,146,489	27,298,719
Capital Assets, Nondepreciable:		
Land and Permanent Easements	136,406,626	110,997,951
Construction in Progress	692,690,918	578,364,148
Capital Assets, Depreciable, Net of Depreciation:	002,000,010	0, 0,00 1, 1 10
Highway Network	183,936,517	-
Machinery and Equipment	8,572	20,579
Total Capital Assets, Net of Depreciation	1,013,042,633	689,382,678
Total Noncurrent Assets	1,915,830,108	1,395,888,551
Total Assets	1,971,679,471	1,444,170,375
LIABILITIES		
Current Liabilities:		
Accounts Payable	23,285,744	29,545,465
Accrued Interest Payable	30,678,152	23,973,021
Accrued Vacation	15,918	9,389
Obligations Under Securities Lending	54,889,207	44,490,567
Due to Other Funds	918	227,392
Revenue Bonds Payable, Net	22,725,000	-
Intergovernmental Payables	5,498	-
Deferred Revenue	266,547	-
Total Current Liabilities	131,866,984	98,245,834
Noncurrent Liabilities:		
Revenue Bonds Payable, Net	1,233,488,119	854,549,970
Note Payable	283,508,357	264,596,067
Advances from Other Funds	22,746,383	21,011,189
Accrued Interest Payable	29,549,695	15,327,935
Accrued Vacation	162,732	98,902
Total Noncurrent Liabilities	1,569,455,286	1,155,584,063
Total Liabilities	1,701,322,270	1,253,829,897
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	346,628,861	249,443,795
Unrestricted Net Assets	(76,271,660)	(59,103,317)



NORTH CAROLINA TURNPIKE AUTHORITY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ending June 30, 2012 and 2011

	2012		2011
REVENUES	 		
Operating Revenues			
Charges for Services	\$ 495,686	\$	-
Other Operating Revenues	 169,175		21
Total Operating Revenues	 664,861		21
EXPENSES			
Operating Expenses:			
Personnel Services	1,318,567		1,154,715
Supplies and Materials	244,582		17,404
Contracted Personnel Services	2,796,599		601,523
Travel	67,413		59,192
Advertising	-		22,875
Utilities	77,380		41,691
Dues and Subscription Fees	25,495		10,769
Other Services	2,038,719		1,606,419
Cost of Goods Sold	169,170		-
Capital Outlay	3,481,880		82,622
Rental Expense Depreciation	107,035 1,869,952		183,243 15,134
Total Operating Expenses	 12,196,792		3,795,587
Operating Loss	 (11,531,931)		(3,795,566)
NONOPERATING REVENUES (EXPENSES)			
Investment Earnings	2,144,171		2,467,241
Federal Interest Subsidy on Debt	12,217,743		18,141,142
Interest and Fees	(5,251,731)		(1,008,072)
Miscellaneous	-		(301,266)
Total Nonoperating Revenues	 9,110,183		19,299,045
Income (Loss) before Transfers and Capital Grants	(2,421,748)		15,503,479
CAPITAL GRANTS	15,271,545		11,630,678
TRANSFERS IN	69,912,789		69,152,758
TRANSFERS OUT	 (2,745,863)		-
Increase in Net Assets	80,016,723		96,286,915
NET ASSETS			
Net Assets Beginning, July 1	 190,340,478	-	94,053,563
Net Assets Ending, June 30	\$ 270,357,201	\$	190,340,478

NORTH CAROLINA TURNPIKE AUTHORITY STATEMENTS OF CASH FLOWS

Years Ending June 30, 2012 and 2011

	2012	2011
CACH FLOWE FROM OPERATING ACTIVITIES	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 582,671	\$ 21
Receipts from Customers	(1,248,207)	(1,187,765)
Payments to Employees and Fringe Benefits	(5,653,148)	(1,261,968)
Payments to Vendors and Suppliers		
Other Payments	(2,034,093)	(1,765,348)
Net Cash Flows from Operating Activities	(8,352,777)	(4,215,060)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	(2 - (- 222)	
Transfers Out	(2,745,863)	-
Other Noncapital Financing Receipts - Advances	1,735,194	2,731,754
Net Cash Flows from Noncapital Financing Activities	(1,010,669)	2,731,754
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(272,236,939)	(326,405,664)
Transfers In	69,912,790	69,152,758
Federal Interest Subsidy on Debt	18,326,614	8,690,893
Capital Grants	15,614,697	11,600,352
Capital Gifts	50,000	-
Proceeds from Issuance of Revenue Bonds	422,105,247	233,920,000
Interest Expense	(49,752,911)	(37,869,328)
Issuance Costs	(2,849,311)	(1,688,672)
Proceeds from TIFIA Loan	-	195,796,023
Net Cash Flows from Capital and Related Financing Activities	201,170,187	153,196,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale and Maturities of Investments	4,629,114,969	747,334,759
Purchase of Investments	(4,823,590,936)	(1,174,987,855)
Investment Earnings	5,571,527	8,108,677
Net Cash Flows from Investing Activities	(188,904,440)	(419,544,419)
Net Change in Cash and Cash Equivalents	2,902,301	(267,831,363)
Cash and Cash Equivalents at Beginning of Year	-	267,831,363
Cash and Cash Equivalents at End of Year	\$ 2,902,301	\$ -
SUMMARY OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents Unrestricted	\$ 2,569,019	\$ -
Cash and Cash Equivalents Restricted	333,282	
Cash and Cash Equivalents at End of Year	\$ 2,902,301	\$ -

NORTH CAROLINA TURNPIKE AUTHORITY STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ending June 30, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH		
FLOWS USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (11,531,931)	\$ (3,795,566)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by		
Operating Activities:		
Depreciation Expense	1,869,952	15,134
Management Fees	(16,248)	-
Changes in Assets and Liabilities:		
Accounts Receivable	(82,190)	(1,865)
Inventories	(1,420,171)	-
Accounts Payable	2,711,881	(623,801)
Intergovernmental Payables	5,498	-
Due to Other Funds	(226,474)	224,087
Deferred Revenue	266,547	-
Compensated Absences	 70,359	 (33,049)
Total Cash (Used by) Operating Activities	\$ (8,352,777)	\$ (4,215,060)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in Fair Value of Investments	\$ 10,857,257	\$ 1,234,493
Amortization of Bond Related Costs	706,895	1,008,073
Change in Construction in Progress as a Result of Accrual Liabilities	22,909,850	29,489,618
Assets Acquired Through Assumption of a Liability	51,709,874	41,711,692

June 30, 2012 and 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose The North Carolina Turnpike Authority (NCTA) was established by G.S. 136 Article 6H on October 3, 2002. Effective July 27, 2009 the North Carolina General Assembly adopted Session law 2009-343, transferring the NCTA to the North Carolina Department of Transportation to conserve expenditures and improve efficiency. The NCTA is a business unit of the North Carolina Department of Transportation and is subject to and under the direct supervision of the Secretary of Transportation. The NCTA is presented as a major enterprise fund in the State of North Carolina. Currently, the NCTA is authorized to construct, operate and maintain up to nine toll roads in the state.
- B. Financial Reporting Entity The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The NCTA is a business unit of the North Carolina Department of Transportation. The NCTA is an integral part of the State of North Carolina's *Comprehensive Annual Financial Report*. These financial statements for the NCTA are separate and apart from those of the State of North Carolina and do not present the financial position of the State, nor changes in the State's financial position and cash flows. The NCTA is governed by a nine member Board of Directors; two members are appointed by the Senate Pro Tempore and two by the Speaker of the House. The remaining five are appointed by the Governor, and include the Secretary of Transportation.
- C. Basis of Presentation The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The full scope of the NCTA's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.
 - The NCTA elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB Statement Number 20, the NCTA elected not to apply FASB statements or interpretations issued on or after November 30, 1989, unless specifically adopted by GASB.
- D. Basis of Accounting The financial statements of the NCTA have been prepared using the "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- E. Cash and Cash Equivalents This classification includes deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The funds on deposit with the State Treasurer are an advance from the Highway Trust fund and are available on demand for payment of the NCTA's expenses. The cash balances as of June 30, 2012 and 2011 are the result of timing differences between when the expenses are recorded and when the corresponding checks are written.

June 30, 2012 and 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. State Treasurer's Securities Lending Collateral – While the NCTA does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Short-Term Investment Fund which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the NCTA recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "Securities Lending Collateral" and "Obligations Under Securities Lending." The NCTA's allocable share of these assets and liabilities is based on the NCTA's year end deposit balance per the State Treasurer's records.

Based on the authority provided in General Statutes 147-69.3(e), the State Treasurer lends securities from its investment pools to brokers-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. The Treasurer's custodian lent U.S. government and agency securities, FNMAs, corporate bonds and notes for collateral. The Treasurer's custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent.

The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

Additional details on the State Treasurer's securities lending program are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- G. Receivables Receivables consist of uncollected toll revenues, as well as, amounts due from the Federal Highway Administration in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables also include a cash subsidy from the Federal Government. Pursuant to the issuance of the 2009B and 2010A Series State Appropriation Revenue Bonds, the Authority will receive cash subsidy payments from the United States Treasury equal to 35% of the interest payable.
- H. Restricted Cash and Cash Equivalents This classification includes funds received through toll revenue collections. The proceeds are to be used for debt service payment. The funds are held in the North Carolina State Treasurer's Investment Fund and the securities are valued at amortized cost, which approximates fair value.
- I. Restricted Investments This classification includes revenue bond proceeds and funds received from the State of North Carolina to be used solely for the construction of the Triangle Expressway and the Monroe Connector. These funds are invested in a money market mutual fund and other designated funds and are valued using the Net Asset Value (NAV) provided by the administrator of the funds. The securities are stated at fair market value.

June 30, 2012 and 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- J. Inventory Inventory is valued at the lower of cost (first-in, first-out) or market and consists of transponders held for resale.
- K. Deferred Charges Includes bond issuance costs, assured guaranty premiums, and underwriter's discounts related to the issuance of the 2009, 2010 and 2011 Series Revenue bonds. These amounts are capitalized and will be amortized over the maturity of the bonds.
- Capital Assets Nondepreciable Includes land and permanent easements purchased for specific projects. These costs will never be depreciated and include consultant contract expenditures and contracted personnel service expenditures that are charged to specific projects. These costs, currently recorded as construction in progress, will be transferred to depreciable asset categories when projects are complete.
- M. Capital Assets Depreciable Capital assets are stated at cost at the date of acquisition or fair value at date of donation in the case of gifts. Assets that have a value or cost in excess of \$5,000 at the date of acquisition and have an expected useful life of more than one year are capitalized. This definition conforms to the policy of the North Carolina Office of State Controller.

Depreciation is calculated using the straight-line method over the estimated useful life of 5 years for the machinery and equipment and 50 years for the highway network. Capital assets are carried at cost less accumulated depreciation.

- N. Noncurrent Liabilities Noncurrent liabilities include the advances from other funds, revenue bonds payable, a note payable, accrued interest, and accrued vacation that will not be paid within the fiscal year.
- O. Accrued Vacation The NCTA's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, accrued vacation includes the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to conversion to sick leave. When classifying accrued vacation into current and noncurrent, leave is considered taken using a last-in, first-out method.

P. Net Assets – The NCTA's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the NCTA's total investment in capital assets, net of the corresponding related debt.

Unrestricted Net Assets - Since there were minimal toll collections and the NCTA is incurring expenses in excess of the capital grants received, the NCTA has a deficit in unrestricted net assets balance.

June 30, 2012 and 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Revenue and Expense Recognition – The NCTA classifies its revenue as operating and nonoperating and its expenses as operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating expenses generally result from providing services and producing and delivering goods in connection with the NCTA's principal ongoing operations. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

Operating revenues include activity from the toll roads that were open for operations during the fiscal year ending June 30, 2012. These revenues include toll revenues, processing fees, and other charges arising from the toll roads.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenue from non-exchange transactions represent funds received from the Federal Highway Administration and North Carolina Department of Transportation. These revenues are classified as Capital Grants and are considered nonoperating, along with investment income and transfers in, since these are related to investing, capital or non-capital financing activities.

R. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS

At June 30, 2012 and 2011, respectively, \$2,902,301 and \$0 as shown on the Statements of Net Assets as cash and cash equivalents represents the NCTA's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 and 1.9 years as of June 30, 2012 and 2011, respectively. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. At June 30, 2012 and 2011, \$333,282 and \$0, respectively, is classified as restricted. This amount represents cash collected from toll revenues that are restricted for payments on bonds. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

June 30, 2012 and 2011

NOTE 3 - RESTRICTED INVESTMENTS

At June 30, 2012 and 2011, respectively, \$873,307,704 and \$679,207,154 is invested in the PFM Funds – Prime Series. The PFM Funds – Prime Series is an SEC registered money market mutual fund. The fund invests in obligations of the United States government and its agencies, high quality debt obligations of U.S. companies and obligations of financial institutions. The Fund seeks to maintain a constant \$1 net asset value and is rated "AAAm" by Standard & Poor's. In addition, the Fund maintains a weighted average maturity of 60 days or less. Investments are limited to those authorized under North Carolina General Statute 159-30.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012 is presented as follows:

	July 1, 2011	July 1, 2011 Additions		Transfers	June 30, 2012	
Capital Assets, Nondepreciable						
Land and Permanent Easements	\$ 110,997,951	\$ 26,116,956	\$ (708,281)	\$ -	\$ 136,406,626	
Construction in Progress	578,364,148	300,121,232		(185,794,462)	692,690,918	
Total Capital Assets, Nondepreciable	689,362,099	326,238,188	(708,281)	(185,794,462)	829,097,544	
Capital Assets, Depreciable						
Highway Network	-	-	-	185,794,462	185,794,462	
Machinery and Equipment	80,476	-			80,476	
Total Capital Assets, Depreciable	80,476			185,794,462	185,874,938	
Less Accumulated Depreciation for:						
Highway Network	-	1,857,945	-	-	1,857,945	
Machinery and Equipment	59,897	12,007			71,904	
Total Accumulated Depreciation	59,897	1,869,952	-	-	1,929,849	
Total Capital Assets, Depreciable, Net						
of Depreciation	20,579	(1,869,952)	-	185,794,462	183,945,089	
Capital Assets, Net of Depreciation	\$ 689,382,678	\$ 324,368,236	\$ (708,281)	\$ -	\$ 1,013,042,633	

A summary of changes in capital assets for the year ended June 30, 2011 is presented as follows:

	July 1, 2010	Additions	June 30, 2011
Capital Assets, Nondepreciable Land and Permanent Easements Construction in Progress Total Capital Assets, Nondepreciable	\$ 45,983,474 253,073,737 299,057,211	\$ 65,014,477 325,290,411 390,304,888	\$ 110,997,951 578,364,148 689,362,099
Capital Assets, Depreciable Machinery and Equipment	80,476	-	80,476
Less Accumulated Depreciation for: Machinery and Equipment	44,763	15,134	59,897
Total Capital Assets, Depreciable, Net of Depreciation	35,713	(15,134)	20,579
Capital Assets, Net of Depreciation	\$ 299,092,924	\$ 390,289,754	\$ 689,382,678

June 30, 2012 and 2011

NOTE 5 - ADVANCES FROM OTHER FUNDS

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2012:

	July 1, 2011		 Additions	June 30, 2012		
Advances from Other Funds	\$	21,011,189	\$ 1,735,194	\$	22,746,383	

The following is a summary of changes in the NCTA's Advances from Other Funds as of June 30, 2011:

	July 1, 2010		 Additions	June 30, 2011		
Advances from Other Funds	\$	18,279,130	\$ 2,732,059	\$	21,011,189	

Pursuant to G.S. 136-176(b), operation and project development costs for the NCTA are eligible for funding from the Highway Trust Fund administration funds. These funds are considered an Advance from Other Funds and are to be repaid from toll revenue as soon as possible. Beginning one year after the NCTA begins collecting tolls on a completed Turnpike project; interest shall accrue on any unpaid balance owed to the Highway Trust Fund at a rate equal to the State Treasurer's average annual yield on its investment of Highway Trust Fund funds pursuant to G.S. 147-6.1.

NOTE 6 - LEASE OBLIGATIONS

During 2012, the NCTA was released from their two lease contracts that were being negotiated as of June 30, 2011. As of June 30, 2012, the NCTA does not have any operating lease agreements and the lease expense for the year ended June 30, 2012 was the negotiated price for the NCTA to be released from the obligations. Rental expense relating to operating leases during the years ended June 30, 2012 and 2011 was \$107,035 and \$183,243, respectively.

June 30, 2012 and 2011

NOTE 7 - LONG-TERM DEBT

Revenue Bonds Payable

Long-Term Debt as of June 30, 2012 and 2011 consists of the following:

Revenue Bonds	2012	2011
Revenue bonds payable, Series 2009A Triangle Expressway Revenue Bonds in the amount of \$234,910,000, issued July 29, 2009, with coupon rates of 5.50% and 5.75%, with principal payments beginning January 2019 and a final maturity of January 2039, net of unamortized discount of \$1,142,364 at June 30, 2012.	\$ 233,767,636	\$ 233,701,792
Revenue bonds payable, Series 2009B Capital Appreciation Triangle Expressway Revenue Bonds in the amount of \$35,173,109, issued July 29, 2009, compounding semi-annually, with principal payments beginning January 2030, due in full January 2038, net of unamortized discount of \$171,046 at June 30, 2012.	35,002,063	34,992,204
Revenue bonds payable, Series 2009B State Appropriation Revenue Bonds in the amount of \$352,675,000, issued July 29, 2009 with coupon rates of 6.00% and 6.70%, with principal payments beginning January 2017, final maturity January 2039, net of unamortized discount of \$698,752 at June 30, 2012.	351,976,248	351,935,974
Revenue bonds payable, Series 2010A State Appropriation Revenue Bonds in the amount of \$233,920,000, issued October 26, 2010 with coupon rates of 5.318% and 5.418%, with principal payments beginning January 2022, final maturity January 2041.	233,920,000	233,920,000
Revenue bonds payable, Series 2011 Monroe Connector System Revenue Bonds in the amount of \$10,000,000, issued November 15, 2011, with a coupon rate of 2.48%, with principal payments beginning July 2012 and a final maturity of July 2023.	10,000,000	
Revenue bonds payable, Series 2011 State Appropriation Revenue Bonds in the amount of \$214,505,000, issued November 30, 2011 with a coupon rate of 5.00%, with principal payments beginning July 2012, final maturity July 2041, net of unamortized premium of \$17,791,576 at June 30, 2012.	232,296,576	-
Revenue bonds payable, Series 2011 Grant Anticipation Revenue Vehicle Bonds in the amount of \$145,535,000, issued December 15, 2011 with a coupon rate of 2.10%, with principal payments beginning March 2019, final maturity March 2023, net of unamortized premium of \$13,715,596 at June 30, 2012.	159,250,596	
Total Revenue Bonds	\$ 1,256,213,119	\$ 854,549,970
Notes Payable		
TIFIA note payable for an amount not to exceed \$386,662,363, opened on July 1, 2009, bearing interest of 4.25% per annum, with debt service payments beginning July 2015, due in full July 1, 2047 or the last payment date occurring no later than 35 years after the date of substantial project completion, whichever date is earlier.	\$ 283,508,357	\$ 264,596,067

June 30, 2012 and 2011

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Revenue bond payable maturities are as follows:

Year Ending June 30,	Principal		Interest		Total
2013	\$	22,725,000	\$	63,075,777	\$ 85,800,777
2014		19,150,000		62,585,497	81,735,497
2015		19,720,000		61,911,662	81,631,662
2016		8,200,000		61,328,068	69,528,068
2017		11,960,000		60,951,103	72,911,103
2018-2022		210,430,000		290,120,792	500,550,792
2023-2027		245,350,000		228,256,332	473,606,332
2028-2032		280,856,359		167,278,105	448,134,464
2033-2037		234,246,567		232,103,910	466,350,477
2038-2042		1 7 4,080,183		39,793,933	 213,874,116
Total	\$	1,226,718,109	\$	1,267,405,179	\$ 2,494,123,288

The TIFIA note payable requires debt service payments commencing July 1, 2015 with a final maturity of July 1, 2047, or the last payment date occurring no later than 35 years after the date of substantial project completion, whichever date is earlier. No payment of principal or interest on the TIFIA note payable is required to be made during the period of July 1, 2009 through January 1, 2015. The payments of principal and interest will commence on January 1, 2015. The amounts of principal and interest will be calculated based on the total amount drawn on the note and outstanding as of January 1, 2015. For the period of January 1, 2015 through December 31, 2024, the payment shall be equal to the interest payable on the TIFIA note payable outstanding balance on the next interest payment date. For the period of January 1, 2025 until the maturity of the TIFIA note payable, the payment shall be 100% of the interest payable on the outstanding TIFIA note payable balance on the next interest payment date and 50% of the scheduled principal amortization as determined by the debtor at such future date. Accrued interest on the loan agreement was \$11,345,804 and \$8,213,912 as of June 30, 2012 and 2011, respectively.

TIFIA note payable maturities are as follows:

Year Ending June 30,	Principal		Principal Interest		Interest		Total
2013	\$	-	\$	_	\$ 		
2014		-		-	_		
2015		-		4,829,408	4,829,408		
2016		-		10,916,925	10,916,925		
2017		-		12,175,034	12,175,034		
2018-2022		~		60,833,769	60,833,769		
2023-2027		3,904,228		60,797,761	64,701,989		
2028-2032		26,515,630		57,010,205	83,525,835		
2033-2037		55,897,258		50,136,179	106,033,437		
2038-2042		139,364,436		33,614,531	172,978,967		
2043-2044		57,826,805		3,255,888	61,082,693		
Total	\$	283,508,357	\$	293,569,700	\$ 577,078,057		

June 30, 2012 and 2011

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the years ended June 30, 2012 is as follows:

	J	une 30, 2011	Additions	Reductions	June 30, 2012	Due Within a Year
Bonds Payable Revenue Bonds	\$	856,678,109	\$ 370,040,000	\$ -	\$ 1,226,718,109	\$ 22,725,000
Deferred Amounts: For Issuance Premiums For Issuance Discounts		- (2,128,139)	33,152,957	(1,645,785) 115,977	31,507,172 (2,012,162)	-
1 of loodarioe Discounts		854,549,970	403,192,957	(1,529,808)	1,256,213,119	22,725,000
Note Payable		264,596,067	18,912,290	-	283,508,357	-
Accrued Vacation		108,291	121,388	(51,029)	178,650	15,918
Total Long-Term Debt	\$	1,119,254,328	\$ 422,226,635	\$ (1,580,837)	\$ 1,539,900,126	\$ 22,740,918

Long-term liability activity for the years ended June 30, 2011 is as follows:

	June 30, 2010		Additions	Reductions		June 30, 2011		Due Within a Year	
Bonds Payable Revenue Bonds Less Deferred Amounts:	\$	622,758,109	\$ 233,920,000	\$	-	\$	856,678,109	\$	-
For Issuance Discounts:		(2,244,095)	-		115,956		(2,128,139)		-
		620,514,014	233,920,000		115,956		854,549,970		-
Note Payable Accrued Vacation		68,800,044 141,340	195,796,023 85,098		- (118,147)		264,596,067 108,291		9,389_
Total Long-Term Debt	\$	689,455,398	\$ 429,801,121	\$	(2,191)	\$	1,119,254,328	\$	9,389

Total interest cost on indebtedness was \$64,916,049 and \$54,914,450 for the years ended June 30, 2012 and 2011, respectively. Total capitalized interest represented \$62,264,536 and \$52,348,288 of this amount at June 30, 2012 and 2011, respectively.

Federal Interest Cash Subsidy

NCTA has elected to treat the The Triangle Expressway System State Annual Appropriate Revenue Bonds, Series 2009B and the Monroe Connector System State Appropriation Revenue Bonds, Series 2010A as "Build America Bonds" for purposes of the American Recovery and Reinvestment Tax Act of 2009 (Recovery Act). In adherence with the Recovery Act, the NCTA receives cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series 2009B and 2010A State Appropriation Bonds. Cash subsidy payments totaled \$12,217,743 and \$18,141,142 as of June 30, 2012 and 2011, respectively.

June 30, 2012 and 2011

NOTE 8 - PLEDGED REVENUES

On July 29, 2009, NCTA issued State Annual Appropriation Revenue Bonds, Series 2009B in the amount of \$352,675,000 and the Triangle Expressway System Revenue Bonds, Series 2009A and 2009B in the amount of \$270,083,109. The NCTA has pledged, as security for revenue bonds issued by the NCTA, revenues from the operation of the Triangle Expressway System. During the year-ended June 30, 2012, NCTA opened a portion of the Triangle Expressway and collected charges for services in the amount of \$495,686. Interest incurred during the year ending June 30, 2012 relating to the 2009 Revenue Bonds totaled \$35,649,035 and no principal repayment was required.

On October 26, 2010, NCTA issued Monroe Connector System State Appropriation Revenue Bonds, Series 2010A in the amount of \$233,920,000. The NCTA has pledged, as security for revenue bonds issued by the NCTA, revenues from the operation of the Monroe Connector System.

The NCTA has elected to treat the State Appropriation Revenue Bonds, Series 2009B and 2010A, as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on those bonds. For the State Annual Appropriation Revenue Bonds, specific revenues pledged consist of state annual appropriations, federal interest subsidy payments, and investment income. For the Senior Lien Revenue Bonds, specific revenues pledged consist of toll revenues and all other income derived from the operation of the Triangle Expressway System.

The Monroe Connector System Revenue Bonds, Series 2011 were issued on November 30, 2011 and were outstanding in the aggregate principal amount of \$10,000,000 on June 30, 2012. The 2011 Bonds have a coupon rate of 2.48% and a final maturity of July 2023. Interest on the 2011 Bonds is due and payable on each January 1 and July 1, beginning July 1, 2012.

The Monroe Connector System State Appropriation Revenue Bonds, Series 2011 were issued on November 30, 2011 and were outstanding in the aggregate principal amount of \$232,296,576 on June 30, 2012. The 2011 Bonds are secured by, and payable from, in parity with the Series 2010A Bonds, the revenues and, under certain circumstances, the proceeds of the Bonds. The "revenues" consist of an annual appropriation to the Authority by the State of North Carolina from the North Carolina Highway Trust Fund, the Interest Subsidy Payments received from the United States Department of the Treasury with respect to the Series 2010A Bonds under the "Build America Bond" program, and the investment income realized from the investment of amounts held under the Trust Agreement. Interest on the 2011 Bonds is due and paid semi-annually.

The Monroe Connector System Grant Anticipation Revenue Vehicle Bonds, Series 2011 were issued on December 15, 2011 and were outstanding in the aggregate principal amount of \$159,250,596 on June 30, 2012. The 2011 Bonds are payable solely from certain federal aid revenues received by or on behalf of the State that are legally available for the payment thereof, and moneys held in certain funds under the Indenture. Such federal aid revenues consist of amounts derived from the National Highway System and other federal surface transportation programs. Interest on the 2009B Bonds is due and paid semi-annually.

Proceeds from the bonds will be used to pay the costs of land acquisition, design, construction, and equipping of the Triangle Expressway System and the Monroe Connector System. The total principal and interest remaining to be paid on the bonds is \$2,458,950,178, payable through 2041 (final maturity date). For the current fiscal year, interest paid, available revenues (federal interest subsidy and investment revenues), and state appropriations (transfers in) were \$37,085,304, \$14,361,914, and \$69,912,789, respectively. The first principal payment is due in 2013.

June 30, 2012 and 2011

NOTE 9 - PENSION PLANS

A. Retirement Plans – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations.

For the years ending June 30, 2012, 2011, and 2010, the NCTA had a total payroll of \$1,973,724, \$2,040,256, and \$2,052,154 of which \$1,699,256, \$1,531,997, and \$1,628,285 was covered under the Teachers' and State Employees' Retirement System. Total employer contributions for pension benefits for the years ended June 30, 2012, 2011, and 2010 were \$126,425, \$75,527, and \$58,130, respectively. Total employee contributions for pension benefits were \$101,955, \$91,920, and \$97,697 for the years ended June 30, 2012, 2011, and 2010, respectively.

Required employer contribution rates for the years ended June 30, 2012, 2011, and 2010, were 7.44%, 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The NCTA made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the North Carolina Public Employee Deferred Compensation Trust Fund. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the NCTA. The voluntary contributions by employees amounted to \$19,266, \$7,530, and \$0 for the years ended June 30, 2012, 2011, and 2010, respectively.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the NCTA. The voluntary contributions by employees amounted to \$32,303, \$20,839, and \$23,239 for the years ended June 30, 2012, 2011, and 2010, respectively.

June 30, 2012 and 2011

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

A. Health Benefits – The NCTA participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides post employment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on these contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the years ended June 30, 2012 and 2011, the NCTA contributed 5.0% and 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2012 and 2011 were 5.0% and 4.9%, respectively. The NCTA made 100% of its annual contributions to the Plan for the years ended June 30, 2012 and 2011, which were \$84,963 and \$75,068, respectively. The NCTA assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's internet home page http://www.ncosc.net/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Disability Income – The NCTA participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal years ended June 30, 2012 and 2011, the NCTA made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The NCTA made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012 and 2011, which were \$8,836 and \$7,966, respectively. The NCTA assumes no liability for long-term disability benefits under the Plan other than its contribution.

June 30, 2012 and 2011

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 11 - RISK MANAGEMENT

The NCTA is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The NCTA carries insurance through the North Carolina Department of Transportation (NCDOT) for risks of loss. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by NCDOT directly to the insurer.

The State Property Fire Insurance Fund (Fund), an internal service fund of the State, insures all State-owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. Losses covered by the Fund are subject to a \$500 per occurrence deductible except for theft losses that carry a \$1,000 per occurrence deductible. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance handled by the North Carolina Department of Insurance. The State is self-insured for the first \$500,000 of any loss through a retrospective rated plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$500,000. The liability limits for losses occurring in-state are \$500,000 per claimant and \$5,000,000 per occurrence. The NCDOT covers the cost of excess insurance and to pay for those losses falling under the self-insured retention.

The NCTA is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence, with a \$75,000 deductible and 10% participation in each loss above the deductible. In addition, the NCDOT has a separate public employee dishonesty and faithful performance policy with a limit of \$1,000,000.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the NCTA's primary responsibility is to arrange for and provide the necessary treatment for the work-related injury. The NCTA is responsible to pay medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The NCTA is self-insured for workers' compensation.

Term life insurance of \$25,000 to \$50,000 is provided to eligible employees. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

June 30, 2012 and 2011

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The NCTA has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments for engineering and design contracts were \$22,673,255 and \$199,941,615 at June 30, 2012 and 2011, respectively.

The NCTA at times is involved in litigation in the normal course of business. Although the outcome of any such litigation is not presently determinable, in the opinion of management and the NCTA's General Counsel, the results of the litigation will not have a materially adverse impact on the financial position of the NCTA.

NOTE 14 - RECLASSIFICATION AND RESTATEMENTS

Certain amounts presented in prior year data have been reclassified to be consistent with the current year's presentation.

NOTE 13 - SUBSEQUENT EVENTS

In connection with the preparation of the financial statements and in accordance with accounting principles generally accepted in the United States of America (GAAP), the NCTA considered for disclosure subsequent events that occurred after the statement of net assets date of June 30, 2012 through October 1, 2012, which was the date the financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Directors North Carolina Turnpike Authority Raleigh, North Carolina

We have audited the financial statements of the North Carolina Turnpike Authority (NCTA), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2012 and 2011, which collectively comprise NCTA's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The financial statements present only the NCTA and do not purport to, and do not, present fairly the financial position of the State of North Carolina or the North Carolina Department of Transportation, as of and for the years ended June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of NCTA, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered NCTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NCTA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of NCTA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NCTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization and the State of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

Raleigh, North Carolina

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October 1, 2012

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